HOUSING MARKET INFORMATION

HOUSING MARKET ASSESSMENT

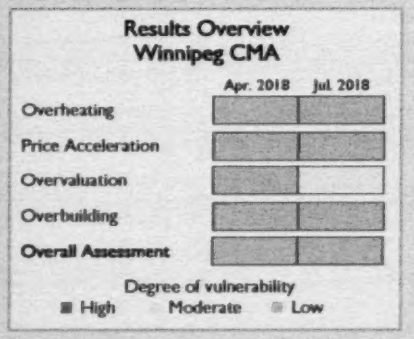
Winnipeg CMA

Date Released: Third Quarter 2018

Canada

CMHC SCHL

Highlights



- Overall, a low degree of vulnerability was detected in Winnipeg's housing market, unchanged from the previous assessment[1].
- There is a moderate degree of overvaluation as real personal disposable income levels continued to decline.
- The evidence of overbuilding remained low, however inventory levels are now trending above the threshold.
- There was no change to the assessment of low vulnerability for price acceleration and overheating indicators.

HMA Overview[2]

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the Housing Market Assessment (HMA), CMHC offers information and analysis that can help Canadians make more informed decisions.

The HMA combines the results from a technical framework with insights gained through CMHC's Market Analysts' knowledge of local market conditions. These insights position CMHC to provide additional context and interpretation to the results of the HMA framework.

The HMA framework detects degrees of vulnerability in local housing markets by identifying imbalances. An example would be the detection of overbuilding, a situation in which the inventory of unsold new homes accumulates due to supply outpacing demand. Such an imbalance could be resolved by an adjustment in house prices. As an example, lower prices would help resolve an excess supply imbalance by supporting stronger demand and/or reducing supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the degrees of market vulnerability. The HMA is a comprehensive framework that considers the intensity of signals of imbalances (that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are associated with potentially low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Overheating

The HMA framework continued to detect low evidence of overheating as the seasonally adjusted sales-to-new listings (SNL) ratio remained below the 85% threshold for overheating. The seasonally adjusted SNL was 57.6% in the first quarter of 2018, a slight moderation from the previous quarter. Adjusting for seasonality, sales were down 2.0% in the first quarter of 2018 compared to the last quarter of 2017, while new listings were up slightly by 0.6%. This caused the SNL ratio to move lower, but still remain within a balanced market range.

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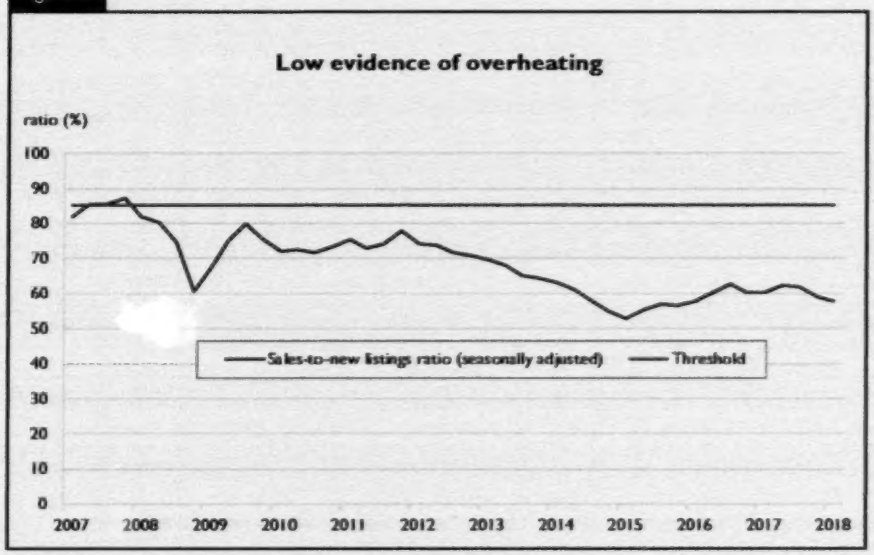
[1] Results are based on data as of the end of March 2018 and local market intelligence up to the end of June 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

[2] A detailed description of the framework is available in the appendix of the National edition.

Price Acceleration

There continued to be a low evidence of price acceleration in the Winnipeg CMA as seasonally adjusted home prices were virtually unchanged in the first quarter of 2018 compared to the previous quarter. However, on a year-over-year basis, the average MLS® price moved higher and increased 2.4% to $296,242. Other measures have shown more modest growth compared to the average MLS® price. Over the same time period, the Statistics Canada New Home Price Index was up 3.0%, while the Teranet-National Bank Index™ was up 3.1%. Overall, supply and demand conditions in the resale market are supporting price growth currently above the rate of inflation.

Figure 1



Source: CREA, calculations (threshold) by CMHC
Last data point: 2018Q1

Overvaluation

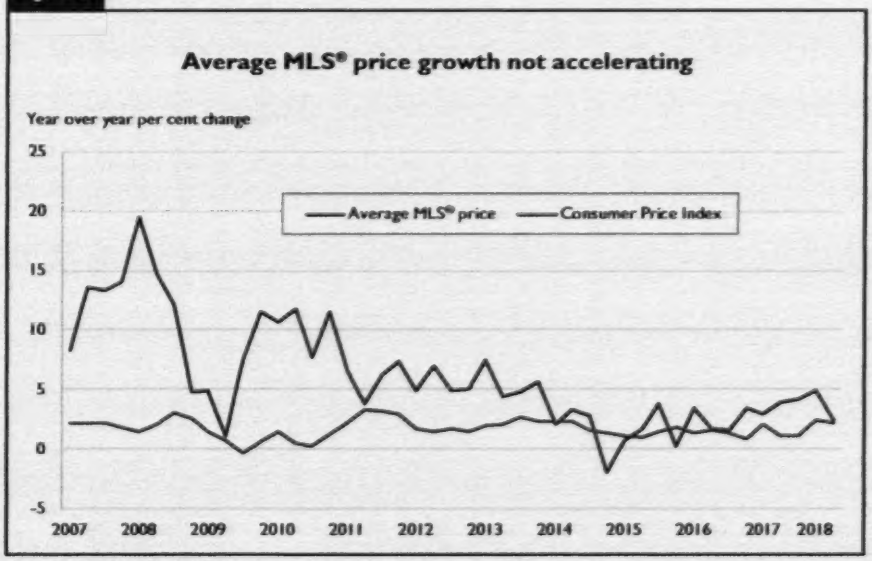
The HMA framework detected moderate evidence of overvaluation in the Winnipeg CMA as several models used to detect overvaluation have moved above their thresholds. The combination of rising house prices and declining incomes have created some imbalances which have increased the level of overvaluation from the previous report. Particularly, real personal disposable income levels have decreased year-over-year for the third consecutive quarter in the first quarter of 2018. As well, mortgage rates have started to increase from historically low levels. This suggests that there has not been sufficient growth in certain economic fundamentals to support the increase in home prices.

In the labour market, employment growth has been slow in the first quarter of 2018, increasing by 0.9% compared to the same quarter last year. However, the growth in employment levels was fully concentrated in the part-time segment of the market as increases in part-time roles were partially offset by declines in full-time positions.

Heather Bowyer
Senior Analyst,
Economics (Winnipeg)

"The level of overvaluation moved from low to moderate as the increase in home prices was above levels warranted by underlying economic fundamentals."

Figure 2



Source: CREA, Statistics Canada
Last data point: 2018Q1

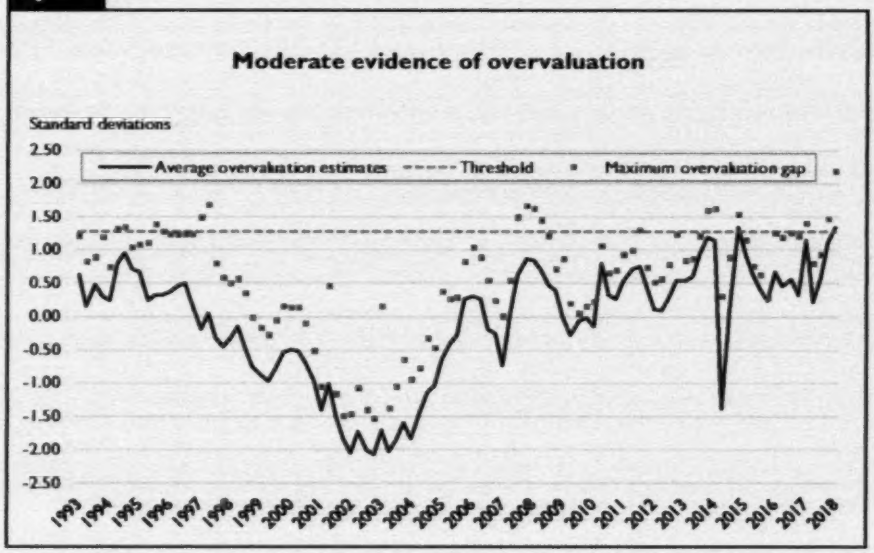
Housing demand will continue to be supported by growth in the first time home buyer population. The population aged 25 to 34 increased by 2.3% in the first quarter of 2018 compared to the same time last year.

Overbuilding

The inventory of completed and unsold units per 10,000 population trended higher and moved above the threshold for overbuilding. In the first quarter of 2018, total new home inventories increased 13.8% compared to the fourth quarter of 2017, and were up from the same time last year by 10.4%.

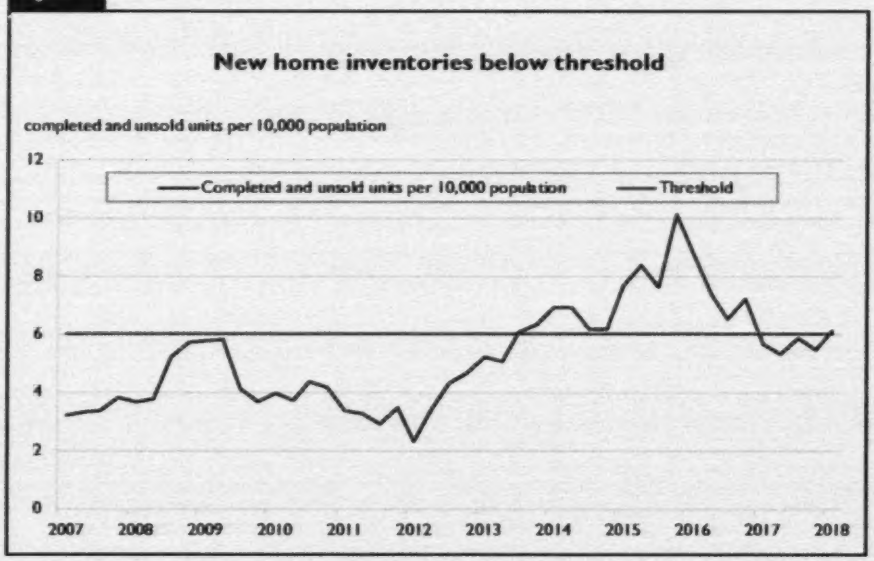
Despite moving higher in the first quarter of 2018, new multi-family inventory remained below the historical average. Historically, overbuilding in Winnipeg has primarily been driven by elevated inventory levels of multi-family units, particularly condominium apartment units. However, condominium apartment units have been trending lower and were down by a third in the first quarter of 2018 compared to the same time last year. Conversely, single-detached units are now contributing to the level of overbuilding as inventories have moved above their historical average. Completed single-detached units and units under construction have been increasing on a year-over-year basis, which could put additional pressures on the single-detached inventory and the overall level of overbuilding moving forward.

Figure 3



Sources: CREA, Statistics Canada and calculations by CMHC. Last data point: 2018Q1
Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold.

Figure 4



Source: CMHC, calculations (threshold) by CMHC, Statistics Canada
Last data point: 2018Q1

Overview of the Housing Market Assessment analytical framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence rather than relying on just one measure or indicator.

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (1) overheating (when demand outpaces supply); (2) sustained acceleration in house prices; (3) overvaluation of house prices in comparison to levels that can be supported by housing market fundamentals (listed below); and, (4) overbuilding (when the inventory of available housing units is elevated).

For each factor, the framework tests for: (1) the incidence of signs of vulnerability, but also considers; (2) the intensity of the signals, i.e. how their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

Housing Market Assessment Factors

Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify signs of overheating, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.

The HMA framework uses combinations of different house price measures and models to estimate house price levels warranted by fundamental drivers. The difference between observed house prices and their estimated levels consistent with housing market fundamentals allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance increases.

Note 2: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

Note 3: The colour scale extends to red only for those factors that have multiple indicators that can identify imbalances. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

Note 4: To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators showing vulnerability from the previous assessment.

* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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